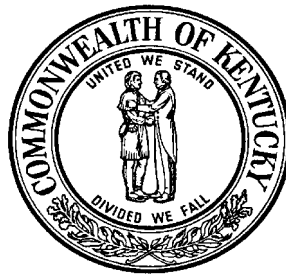


**REPORT OF THE AUDIT OF THE
PULASKI COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PULASKI COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Pulaski County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$427,531 from the beginning of the year, resulting in a cash surplus of \$3,838,780 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$900,000. Future collections of \$879,551 are needed over the next 7 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,307,709 as of June 30, 2002. Future principal and interest payments of \$1,515,658 are needed to meet these obligations.

On March 21, 2000, the Pulaski County Fiscal Court issued \$935,000 of Kentucky General Obligation Public Purpose Notes in order to fund the judgment rendered against the fiscal court for the 1994 improper firing of county employees. The principal on these notes was \$495,000 as of June 30, 2002. Future principal and interest payments of \$536,700 are needed to meet this obligation.

Long-Term Receivables:

The outstanding principal balance of the note receivable due from Somerset Food Services as a result of a Community Development Block Grant Loan was \$352,855. Somerset Food Services was in substantial compliance with the terms of the loan agreement.

The outstanding principal balance of the note receivable due from Somerset Recycling as a result of a Community Development Block Grant Loan was \$68,634. Somerset Recycling was in substantial compliance with the terms of the loan agreement.

Report Comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,191,846 And Entered Into A Written Agreement To Protect Deposits

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Darrell BeShears, Pulaski County Judge/Executive

Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Pulaski County, Kentucky, as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Pulaski County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Pulaski County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Pulaski County, Kentucky, as of June 30, 2002, and its revenues received and disbursements paid, and the cash flows of its enterprise fund for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Darrell BeShears, Pulaski County Judge/Executive
Members of the Pulaski County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2003 on our consideration of Pulaski County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Pulaski County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,191,846 And Entered Into A Written Agreement To Protect Deposits

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 13, 2003

PULASKI COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Darrell BeShears	County Judge/Executive
Darrell Wilson	Magistrate
Howard Hansford	Magistrate
James Cothran	Magistrate
Ralph Troxtell	Magistrate
Kenneth Isaacs	Magistrate
Mike New	Magistrate
James Girdler	Magistrate

Other Elected Officials:

William Thompson	County Attorney
Darrell Presley	Jailer
Willard Hansford	County Clerk
George Flynn	Circuit Court Clerk
Jim McWhorter	Sheriff
T.W. Todd	Property Valuation Administrator
Alan Stringer	Coroner

Appointed Personnel:

Arlene Phelps	County Treasurer
Lorie Hines	Occupational Tax Collector
Ethel VanHook	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

PULASKI COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 2,649,466	\$ 922,174	\$ 182,885
Notes Receivable (Note 4)	421,489		
Total Assets	<u>\$ 3,070,955</u>	<u>\$ 922,174</u>	<u>\$ 182,885</u>
<u>Other Resources</u>			
Amounts to Be Provided			
In Future Years For:			
Capital Leases (Note 7)	\$ 350,704	\$ 957,005	\$
Bond Payments (Note 6A)			900,000
General Obligation Public Purpose Notes (Note 6B)	495,000		
Total Other Resources	<u>\$ 845,704</u>	<u>\$ 957,005</u>	<u>\$ 900,000</u>
Total Assets and Other Resources	<u>\$ 3,916,659</u>	<u>\$ 1,879,179</u>	<u>\$ 1,082,885</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$ 84,280	\$ 3,838,805
	421,489
<u>\$ 84,280</u>	<u>\$ 4,260,294</u>
\$	\$ 1,307,709
	900,000
	495,000
<u>\$ 0</u>	<u>\$ 2,702,709</u>
<u>\$ 84,280</u>	<u>\$ 6,963,003</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Deferred Revenue:			
Notes Receivable (Note 4)	\$ 421,489	\$	\$
Payroll and Health Insurance Liabilities	25		
Capital Leases (Note 7)	350,704	957,005	
Bonds:			
Series 1996 (Note 6A)			900,000
General Obligation Public Purpose Notes (Note 6B)	495,000		
Total Liabilities	<u>\$ 1,267,218</u>	<u>\$ 957,005</u>	<u>\$ 900,000</u>
<u>Equity</u>			
Retained Earnings:			
Reserved	\$	\$	\$
Fund Balances:			
Reserved (Note 9)	19,005	174,730	182,885
Unreserved	2,630,436	747,444	
Total Equity	<u>\$ 2,649,441</u>	<u>\$ 922,174</u>	<u>\$ 182,885</u>
Total Liabilities and Equity	<u><u>\$ 3,916,659</u></u>	<u><u>\$ 1,879,179</u></u>	<u><u>\$ 1,082,885</u></u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Reporting Entity
<u>Enterprise</u>	
\$	\$ 421,489
	25
	1,307,709
	900,000
	495,000
<u>\$ 0</u>	<u>\$ 3,124,223</u>
\$ 84,280	\$ 84,280
	376,620
	3,377,880
<u>\$ 84,280</u>	<u>\$ 3,838,780</u>
<u>\$ 84,280</u>	<u>\$ 6,963,003</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

PULASKI COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 17,091,229	\$ 3,433,481	\$ 2,028,759	\$ 1,686,893
Jail Canteen Receipts	580,526			
Other Financing Sources:				
Transfers In	8,550,284	3,880,301	1,753,687	185,000
Lease-Purchase Proceeds	56,000		56,000	
Kentucky Advance Revenue Program	3,499,400	3,311,200	188,200	
Total Cash Receipts	<u>\$ 29,777,439</u>	<u>\$ 10,624,982</u>	<u>\$ 4,026,646</u>	<u>\$ 1,871,893</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 15,840,231	\$ 5,907,250	\$ 3,548,827	\$ 1,713,403
Fire Project	195,337			
Jail Canteen Expenditures	586,909			
Other Financing Uses:				
General Obligation Public Purpose				
Notes - Principal	225,000	225,000		
Transfers Out	8,550,284	1,355,000		151,923
Bonds:				
Principal Paid	105,000			
Interest Paid	46,673			
Bond Fees	250			
Capital Lease Agreements-				
Principal Paid	300,824	81,385	127,947	
Kentucky Advance Revenue Program				
Repaid	3,499,400	3,311,200	188,200	
Total Cash Disbursements	<u>\$ 29,349,908</u>	<u>\$ 10,879,835</u>	<u>\$ 3,864,974</u>	<u>\$ 1,865,326</u>
Excess (Deficiency) of Cash Receipts				
Over (Under) Cash Disbursements	\$ 427,531	\$ (254,853)	\$ 161,672	\$ 6,567
Cash Balance - July 1, 2001	3,411,249	353,478	145,263	87,890
Cash Balance - June 30, 2002	<u>\$ 3,838,780</u>	<u>\$ 98,625</u>	<u>\$ 306,935</u>	<u>\$ 94,457</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types					Special Revenue Fund Types
Local Government Economic Assistance Fund	Industrial Development Fund	911 Fund	Economic Development Fund	Occupational Tax Fund	Grant Fund
\$ 319,722	\$ 9,790	\$ 117,194	\$ 119,132	\$ 6,174,151	\$ 1,523,213
	1,375,792	802,381		370,000	31,200
<u>\$ 319,722</u>	<u>\$ 1,385,582</u>	<u>\$ 919,575</u>	<u>\$ 119,132</u>	<u>\$ 6,544,151</u>	<u>\$ 1,554,413</u>
\$ 270,929	\$ 793,866	\$ 960,698	\$	\$	\$ 1,383,184
	500,000			6,542,161	
<u>\$ 270,929</u>	<u>\$ 1,293,866</u>	<u>\$ 960,698</u>	<u>\$ 0</u>	<u>\$ 6,542,161</u>	<u>\$ 1,383,184</u>
\$ 48,793	\$ 91,716	\$ (41,123)	\$ 119,132	\$ 1,990	\$ 171,229
31,370	1,230,425	244,569	289,889	132,663	
<u>\$ 80,163</u>	<u>\$ 1,322,141</u>	<u>\$ 203,446</u>	<u>\$ 409,021</u>	<u>\$ 134,653</u>	<u>\$ 171,229</u>

The accompanying notes are an integral part of the financial statements.

PULASKI COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

	<u>Special Revenue Fund Types</u>		<u>Debt Service Fund Type</u>	<u>Enterprise Fund Type</u>
	<u>Fire Protection Fund</u>	<u>Sheriff's Vehicle Fund</u>	<u>Detention Center Corporation Bond Fund</u>	<u>Jail Canteen Fund</u>
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,653,487	\$ 21,347	\$ 4,060	\$
Jail Canteen Receipts				580,526
Other Financing Sources:				
Transfers In			151,923	
Lease-Purchase Proceeds				
Kentucky Advance Revenue Program				
Total Cash Receipts	<u>\$ 1,653,487</u>	<u>\$ 21,347</u>	<u>\$ 155,983</u>	<u>\$ 580,526</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,257,378	\$ 4,696	\$	\$
Fire Project	195,337			
Jail Canteen Expenditures				586,909
Other Financing Uses:				
General Obligation Public Purpose Notes - Principal				
Transfers Out	1,200			
Bonds:				
Principal Paid			105,000	
Interest Paid			46,673	
Bond Fees			250	
Capital Lease Agreements- Principal Paid	91,492			
Kentucky Advance Revenue Program Repaid				
Total Cash Disbursements	<u>\$ 1,545,407</u>	<u>\$ 4,696</u>	<u>\$ 151,923</u>	<u>\$ 586,909</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 108,080	\$ 16,651	\$ 4,060	\$ (6,383)
Cash Balance - July 1, 2001	<u>626,214</u>	<u></u>	<u>178,825</u>	<u>90,663</u>
Cash Balance - June 30, 2002	<u>\$ 734,294</u>	<u>\$ 16,651</u>	<u>\$ 182,885</u>	<u>\$ 84,280</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPE

PULASKI COUNTY
STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 269,527
Cash Received on Inmate Accounts	20,034
Cash Refunded on Inmate Accounts	(57,585)
Inmate State Pay	17,383
Other Receipts	166
Payments to Employees	(4,432)
Payments To Fiscal Court	(12,655)
Payments To Others On Behalf of Prisoners	(8,164)
Payments to Suppliers	<u>(212,647)</u>
Net Cash Provided By Operating Activities	<u>\$ 11,627</u>
Cash Flows From Capital and Related Financing Activities:	
Automobile Purchase	<u>\$ (21,899)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>\$ (21,899)</u>
Cash Flows From Investing Activities:	
Interest Earned	<u>\$ 3,889</u>
Net Cash Provided By Investing Activities	<u>\$ 3,889</u>
Net Decrease In Cash	\$ (6,383)
Cash, July 1, 2001	<u>90,663</u>
Cash, June 30, 2002	<u><u>\$ 84,280</u></u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Pulaski County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Pulaski County Public Properties Corporation as part of the reporting entity.

Pulaski County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC: legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within the county's financial statements.

Additional - Pulaski County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Pulaski County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Pulaski County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Pulaski County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Industrial Development Fund, 911 Fund, Economic Development Fund, and the Occupational Tax Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Pulaski County Special Revenue Fund Type includes the following county funds: Grant Fund, Fire Protection Fund, and Sheriff's Vehicle Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation - Detention Center Corporation Bond Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Proprietary Fund Type

The Proprietary Fund Type is an enterprise fund used to report an activity for which a fee is charged to external users for goods or services. The Pulaski County Proprietary Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

4. Proprietary Fund Type (Continued)

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Pulaski County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Detention Center Corporation Bond Fund (Debt Service Fund) because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type/Special Revenue Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pulaski County Fiscal Court: South Eastern Water District, Western Water District, Pulaski County Public Library Special District, Pulaski County Extension District Board, and the Pulaski County Solid Waste Board.

G. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. The Somerset-Pulaski Development Foundation, Inc. is a joint venture between the Pulaski County Fiscal Court and the city of Somerset.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 2. Employee Retirement System (Continued)

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of August 31, 2001 the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,191,846 of public funds uninsured and unsecured. In addition, the county did not have a written agreement with one of the depository institutions securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 400,000
Collateralized with securities held by the county's agent in the county's name	1,235,433
Collateralized with surety bond	2,629,228
Uncollateralized and uninsured	<u>1,191,846</u>
Total	<u>\$ 5,456,507</u>

Note 4. Long Term Receivables

A. In April 1993, Pulaski County loaned Somerset Food Services the proceeds from a Community Development Block Grant in the amount of \$317,532 plus an additional \$200,000. This loan was for a period of twenty (20) years at 3 percent interest, with 20 annual payments in the amount of \$21,307 for the first five years and \$38,061 for the remaining 15 years. As of June 30, 2002, Somerset Food Services was in substantial compliance with the terms of the loan agreement and the principal balance due was \$352,855.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long Term Receivables (Continued)

B. On December 15, 1997, Pulaski County passed through Community Development Block Grant (CDBG) funds in the amount of \$99,900 to the Somerset-Pulaski County Development Foundation, Inc., which were loaned to Somerset Recycling. On June 15, 1998, an additional \$61,038 of CDBG funds was loaned to Somerset Recycling. The combined loan repayment schedule was for a period of 7 years at 5.641 percent interest, with monthly payments of \$2,403. As of June 30, 2002, Somerset Recycling was in substantial compliance with the terms of the loan agreement and the principal balance due was \$68,634.

Note 5. Operating Leases

Description	Purchase Date	Maturity Date	Interest Rate	Amount
Copiers:				
Treasurer's Office	5/30/1998	8/30/2002	Variable	\$ 934
Occupational Tax Office	9/5/2000	8/5/2004	Variable	4,061
Ford Explorer SUV	4/2/2001	4/2/004	Variable	25,677
Mailing Scales:				
Occupational Tax Office	12/21/2000	3/1/2006	Variable	4,005
Judge's Office	1/9/2001	5/9/2006	Variable	6,897

Note 6. Long-Term Debt

A. 1996 Revenue Bonds

On October 1, 1996, the Pulaski County Detention Center Corporation Bond Fund issued \$1,415,000 of Revenue Bonds for the purpose of defeasing the 1988 Bond Series Issue. The 1988 bonds were originally issued to finance and equip the Pulaski County Detention Center. The Refunding Bonds were dated October 1, 1996, with the requirement that two semiannual interest payments be made on January 1 and July 1 of each year commencing January 1, 1997. One principal payment is due on July 1 of each year, commencing January 1, 1997. Bonds will mature July 1, 2008. As of June 30, 2002, the principal amount outstanding was \$900,000.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Long-Term Debt (Continued)

A. 1996 Revenue Bonds (Continued)

Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 41,405	\$ 110,000
2004	35,893	115,000
2005	30,013	125,000
2006	23,765	130,000
2007	17,273	135,000
2008-2009	<u>14,087</u>	<u>285,000</u>
Totals	<u>\$ 162,436</u>	<u>\$ 900,000</u>

B. General Obligation Public Purpose Notes

The County issued \$935,000 of Kentucky General Obligation Public Purpose notes at 5.56% to pay a civil judgment. These notes were dated March 1, 2000, with the requirement that two semiannual interest payments be made on September 1 and March 1 of each year, commencing September 1, 2000. One principal payment is due on March 1 of each year. As of June 30, 2002, the principal amount outstanding was \$495,000. Debt service requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 27,522	\$ 240,000
2004	<u>14,178</u>	<u>255,000</u>
Totals	<u>\$ 41,700</u>	<u>\$ 495,000</u>

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 7. Capital Lease Agreements

The county has entered into the following capital lease agreements:

A. Voting Machine Lease - General Fund

On September 3, 1999, the Pulaski County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of voting machines. The principal was \$236,225 at 4.0 percent interest for a period of 3 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2002 was \$20,418. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 135	\$ 20,418
Totals	<u>\$ 135</u>	<u>\$ 20,418</u>

B. Road Equipment Lease - Road Fund

On September 7, 1999, the Pulaski County Fiscal Court entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of road equipment. The principal was \$330,000 at 4.0 percent interest for a period of 5 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2002 was \$156,918. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 5,038	\$ 68,124
2004	2,256	71,253
2005	<u>114</u>	<u>17,541</u>
Totals	<u>\$ 7,408</u>	<u>\$ 156,918</u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 7. Capital Lease Agreements (Continued)

C. Fire Project Lease - Fire Protection Fund

On November 29, 2000, the Pulaski County Fiscal Court entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of fire equipment, land, and the construction of a three bay fire station. The principal was \$1,100,000 at 4.25 percent interest for a period of 10 years with interest and principal paid monthly. The principal balance as of June 30, 2002 was \$957,005. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 38,824	\$ 95,695
2004	34,672	100,091
2005	30,329	104,690
2006	25,787	109,499
2007	21,136	114,529
2008-2011	32,969	432,501
Totals	<u>\$ 183,717</u>	<u>\$ 957,005</u>

D. Dump Truck Lease - Road Fund

On April 26, 2002, the Pulaski County Fiscal Court entered into a lease-purchase agreement with Kentucky Association of Counties Leasing Trust Program for the purchase of a 2002 International tandem dump truck. The principal was \$56,000 at 3.25 percent interest for a period of 3 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2002 was \$54,517. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 1,504	\$ 18,113
2004	906	18,711
2005	289	17,693
Totals	<u>\$ 2,699</u>	<u>\$ 54,517</u>

PULASKI COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 7. Capital Lease Agreements (Continued)

E. Backhoe Lease - Road Fund

On December 18, 2000, the Pulaski County Fiscal Court entered into a lease-purchase agreement with Case Credit for the purchase of two Case 580M backhoes. The principal was \$105,497 at 6.75 percent interest for a period of 5 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2002 was \$77,224. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 4,517	\$ 20,757
2004	2,990	22,284
2005	1,463	23,811
2006	159	10,372
Totals	<u>\$ 9,129</u>	<u>\$ 77,224</u>

F. Backhoe Lease - Road Fund

On June 15, 2001, the Pulaski County Fiscal Court entered into a lease-purchase agreement with Case Credit for the purchase of a Case 580M backhoe. The principal was \$50,729 at 5.75 percent interest for a period of 5 years, with interest and principal paid monthly. The principal outstanding as of June 30, 2002 was \$41,627. Lease payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 2,146	\$ 9,723
2004	1,526	10,344
2005	905	10,964
2006	284	10,596
Totals	<u>\$ 4,861</u>	<u>\$ 41,627</u>

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 8. Material Grants

A. SBA Grant - Hal Rogers Fire Training Center

Pulaski County Fiscal Court was awarded a federal grant in the amount of \$1,278,000 from the United States Small Business Administration to provide funds for construction of a fire training center. During fiscal year 2002, Pulaski County Fiscal Court received grant funds of \$267,670 and expended grant funds of \$276,258. As of June 30, 2002, the county is due reimbursements totaling \$8,688 for grant expenditures. The unexpended balance as of June 30, 2002 was \$0.

B. Community Development Block Grant - State Programs

Pulaski County Fiscal Court was awarded a federal grant in the amount of \$690,000 from the United States Department of Housing and Urban Development, passed through the Department for Local Government, Commonwealth of Kentucky, Kentucky Community Development Block Grant - State Programs, to provide funds for the Southeastern Water Expansion Project for waterline construction. During fiscal year 2002, Pulaski County Fiscal Court received grant funds of \$585,607 and expended grant funds of \$585,607. The unexpended balance as of June 30, 2002 was \$0.

C. Department of Transportation Grant - Highway 196 Project

Pulaski County Fiscal Court was awarded a state grant totaling \$640,000 from the Department of Highways, Transportation Cabinet, Commonwealth of Kentucky, for the purpose of reconstruction of a 1800 foot section of Highway 196. During fiscal year 2002, Pulaski County Fiscal Court received grant funds of \$173,886, which included reimbursements for prior year expenditures in the amount of \$19,606 and spent funds totaling \$154,280. The unexpended balance as of June 30, 2002 was \$0.

D. HB 502 Southeastern Water Expansion Project Grant

Pulaski County Fiscal Court was awarded and received 2 State HB 502 grants in the amounts of \$150,000 and \$350,000 respectively for the purpose of waterline expansion. During fiscal year 2002, Pulaski County expended grant funds totaling \$325,842. The unexpended balance as of June 30, 2002 was \$174,158.

E. HB 502 Western Pulaski County Water Expansion Project Grant

Pulaski County Fiscal Court was awarded and received a State HB 502 grant in the amount of \$150,000 for the purpose of waterline expansion. During fiscal year 2002, the Pulaski County expended grant funds totaling \$150,000. The unexpended balance as of June 30, 2002 was \$0.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 9. Reserved Fund Balances

Reservations of fund balance represent amounts that are legally segregated for a specific purpose. The following funds had reserved fund balances:

A. General Fund Type

As of June 30, 2002, \$19,005 of the fund balance of the General Fund Type was reserved because these funds were legally restricted as follows:

- 1) Pulaski County received grant funds from the Kentucky Agricultural Development Board for the purpose of implementing a county animal disposal cost-share program. These funds are legally restricted for that purpose. The unexpended balance of the grant funds as of June 30, 2002, was \$9,926.
- 2) Pulaski County received grant funds from the Kentucky Area Development Fund for the Shopville and White Lilly Ball Park Improvements Project. These funds are legally restricted for that purpose. The unexpended balance of the grant funds as of June 30, 2002, was \$9,079.

B. Special Revenue Fund Type

As of June 30, 2002, \$174,730 of the fund balance of the Special Revenue Fund Type was reserved for the following reasons:

- 1) Pulaski County received a HB 502 grant for the purpose of purchasing equipment and funding improvements for various fire departments throughout the county. These funds are legally restricted for that purpose. The unexpended grant balance of the grant funds as of June 30, 2002 was \$572.
- 2) Pulaski County received a Community Development Block Grant and a HB502 grant for the purpose of funding water line construction of the Southeastern Water Expansion Project. These funds are legally restricted for that purpose. As of June 30, 2002, the unexpended grant balance of the Community Development Block Grant was \$0 and the unexpended balance of the HB 502 grant was \$174,158.

C. Debt Service Fund Type

As of June 30, 2002, \$182,885 in the Debt Service Fund Type is reserved. These funds are deposited to the Pulaski County Detention Center Debt Reserve Account for the purpose of making future bond and interest payments.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

PULASKI COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Budgeted Funds	Budgeted Operating Revenue	Actual Operating Revenue	Over (Under) Budget
<u>General Fund Types</u>			
General Fund	\$ 6,637,127	\$ 3,433,481	\$ (3,203,646)
Road and Bridge Fund	3,348,200	2,028,759	(1,319,441)
Jail Fund	1,658,718	1,686,893	28,175
Local Government Economic Assistance Fund	344,700	319,722	(24,978)
Industrial Development Fund	870,500	9,790	(860,710)
911 Fund	874,500	117,194	(757,306)
Economic Development Fund	79,000	119,132	40,132
Occupational Tax Fund		6,174,151	6,174,151
<u>Special Revenue Fund Types</u>			
Grant Fund	3,398,000	1,523,213	(1,874,787)
Fire Protection Fund	1,233,000	1,653,487	420,487
Totals	<u>\$ 18,443,745</u>	<u>\$ 17,065,822</u>	<u>\$ (1,377,923)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 18,443,745
Add: Budgeted Prior Year Surplus			2,661,000
Budgeted Lease Proceeds			56,000
Kentucky Advanced Revenue Program			3,499,325
Other Borrowed Money			200,000
Less: Transfers to Detention Center			
Corporation Bond Fund-			
Principal			(105,087)
Interest			(46,673)
Bond Fees			(1,500)
Capital Lease Agreements -			
Principal on Leases			(300,824)
Kentucky Advanced Revenue Program			(3,499,400)
Kentucky General Obligation Public			
Purpose Notes Series 2000-			
Principal			<u>(225,000)</u>
Total Operating Budget Per Comparative Schedule			
Of Final Budget and Budgeted Expenditures			<u>\$ 20,681,586</u>

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SCHEDULE OF OPERATING REVENUE

PULASKI COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Revenue Categories</u>	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Types	Debt Service Fund Type
Taxes	\$ 9,376,829	\$ 7,801,858	\$ 1,574,971	\$
In Lieu Tax Payments	297,343	297,343		
Excess Fees	660,125	660,125		
Licenses and Permits	119,612	119,612		
Intergovernmental Revenues	5,886,881	4,349,552	1,537,329	
Charges for Services	137,171	137,171		
Miscellaneous Revenues	423,518	361,045	62,473	
Interest Earned	189,750	162,416	23,274	4,060
Total Operating Revenue	<u>\$ 17,091,229</u>	<u>\$ 13,889,122</u>	<u>\$ 3,198,047</u>	<u>\$ 4,060</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

PULASKI COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,719,549	\$ 2,166,349	\$ 553,200
Protection to Persons and Property	3,168,278	3,010,457	157,821
General Health and Sanitation	245,832	231,073	14,759
Social Services	47,900	42,000	5,900
Recreation and Culture	309,038	334,570	(25,532)
Roads	3,604,268	3,296,211	308,057
Airports	23,000	23,000	
Debt Service	541,062	150,969	390,093
Capital Projects	1,006,510	791,283	215,227
Administration	3,814,146	3,149,061	665,085
 Total Operating Budget - General Fund Types	 \$ 15,479,583	 \$ 13,194,973	 \$ 2,284,610
Other Financing Uses:			
Transfers to Detention Center			
Corporation Bond Fund-			
Principal	105,087	105,000	87
Interest	46,673	46,673	
Administrative Fees	1,500	250	1,250
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	3,499,400	3,499,400	
Kentucky General Obligation Public			
Purpose Notes Series 2000-			
Principal	225,000	225,000	
Capital Lease Agreements-			
Principal on Lease	209,332	209,332	
 TOTAL BUDGET - GENERAL FUND TYPES	 \$ 19,566,575	 \$ 17,280,628	 \$ 2,285,947

PULASKI COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2002
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,495	\$ 4,696	\$ (2,201)
Protection to Persons and Property	599,405	551,577	47,828
Recreation and Culture	25,530	25,525	5
Debt Service	38,508	40,514	(2,006)
Capital Projects	4,321,520	1,971,740	2,349,780
Administration	214,545	51,206	163,339
Total Operating Budget - Special Revenue Fund Types	\$ 5,202,003	\$ 2,645,258	\$ 2,556,745
Other Financing Uses:			
Capital Lease Agreement - Principal on Lease	91,492	91,492	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 5,293,495</u>	<u>\$ 2,736,750</u>	<u>\$ 2,556,745</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Darrell BeShears, Pulaski County Judge/Executive

Members of the Pulaski County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Pulaski County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pulaski County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

Reference Number 2002-1

- The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,191,846 And Entered Into A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pulaski County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 13, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Darrell BeShears, Pulaski County Judge/Executive

Members of the Pulaski County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pulaski County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Pulaski County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pulaski County's management. Our responsibility is to express an opinion on Pulaski County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pulaski County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pulaski County's compliance with those requirements.

In our opinion, Pulaski County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Pulaski County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pulaski County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 13, 2003

FINDINGS AND QUESTIONED COSTS

PULASKI COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Pulaski County.
2. No reportable conditions relating to the audit of the financial statements is reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Pulaski County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pulaski County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pulaski County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant - State Programs
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pulaski County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

Reference Number 2002-1

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,191,846 And Entered Into A Written Agreement To Protect Deposits

On August 31, 2001, \$1,191,846 of the county's deposits of public funds were uninsured and unsecured. In addition, the county did not have a written agreement with one of the financial institutions. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The county should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

PULASKI COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2002
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES (Continued)

Reference Number 2002-1 (Continued)

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$1,191,846 And Entered Into A Written Agreement To Protect Deposits
(Continued)

County Judge/Executive Darrell BeShears' Response:

We thought that there was a security agreement on file with the Monticello Banking Company due to prior business dealings with that institution. We are moving the account in question to a bank that the county does have a security agreement with. I also spoke with the Monticello Banking Company about the lack of securities on this account and was told that the employee who opened the account failed to flag it as a public account and also did not notify management about the securities pledge. I was not aware of this. I realize that this is not a defense, but the account is pledged at this time. The account was pledged for \$1,350,000 on July 3, 2002.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

The County Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$150,628 To Protect Deposits

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

PULASKI COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grants- State Program		
Southeastern Water Expansion Project (CFDA #14.228)	99-030	\$ 585,607
Valley Oak Industrial Park Infrastructure Project (CFDA #14.228)	00-018	19,936
<u>U.S. Appalachian Regional Commission</u>		
Appalachian Regional Commission Grants-		
Appalachian State Research, Technical Assistance And Demonstration Program (CFDA #23.011)	CO-13661-00	20,310
<u>U.S. Department of the Interior</u>		
Passed-Through State Department for Local Government:		
Outdoor Recreational Acquisition Development and Planning- Shopville Community Park LWCF Project (CFDA #15.252)	21-01222	35,406

PULASKI COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Treasury</u>		
Bureau of Alcohol, Tobacco, And Firearms Gang Resistance Education And Training (CFDA #21.053)	ATC010171	\$ 7,066
Gang Resistance Education And Training (CFDA #21.053)	ACT020182	6,063
<u>U.S. Department of Transportation</u>		
Passed-Through Department For Local Government: Recreation Trails Program (CFDA #20.219)	RTP 90-99	3,836
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	Not Available	11,511
<u>U.S. Small Business Administration</u>		
Emergency Training Center Grant Program Hal Rogers Fire Training Center (CFDA #59.000)	SBAHQ-01-1-0051	<u>276,258</u>
Total Cash Expenditures of Federal Awards		<u>\$ 965,993</u>

PULASKI COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pulaski County, Kentucky and is presented on a modified cash basis of accounting.

Note 2 - As required by the Community Development Block Grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PULASKI COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PULASKI COUNTY FISCAL COURT

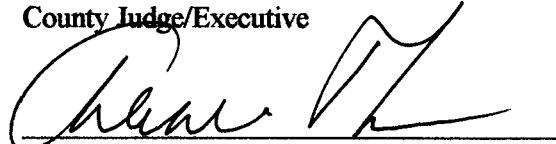
Fiscal Year Ended June 30, 2002

The Pulaski County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "James Bell", written over a horizontal line.

Name

County Judge/Executive

A handwritten signature in black ink, appearing to read "James H. Bell", written over a horizontal line.

Name

County Treasurer